Interpersonal Messaging - a message transfer and routing service which utilizes telephone number addressing and which transfers messages (including voice mail, e-mail, facsimile mail and multimedia mail) between public and private systems.

Appendix C: Proposed Objectives for Interstate Access Reform

I. Promote Universal Service

The Commission has demonstrated through its experience with the interexchange market that a pro-competitive policy can be pursued while maintaining universal service goals. However, this was only made possible by recognition of the support flows implicit in pre-divestiture rates, and implementation of the Commission's End User Common Line Charges as a means of recovering some of these support requirements. Today's interstate access charge plan contains significant universal service support flows, and as such, the pattern of relative rates is different from the pattern a market outcome would produce.

In a market where access services are subject to increasing competition, there will no longer be any one carrier that can be relied upon to generate funding for universal service. The current regulatory framework which relies on the exchange carriers to perform this role is not consistent with the development of competition. The Commission's review of access should address support flow issues that are incorporated in today's access rates and should include specific measures to identify and recover them. The funding for support mechanisms to ensure universal service should be contributed to by all service providers in a way that eliminates market distortions. Both a short term and a longer term view are needed, and some transition plan may be appropriate as regulatory reform is implemented.

II. Promote Introduction of New Services and Technologies

The Congress and the Commission have adopted as an explicit goal the promotion of new technologies and new services. However, the existing access framework does not promote achievement of this goal; in fact, it actively impedes it. As demonstrated in Appendix A and B , many new services do not readily fit the existing rate structure, and the process for obtaining a waiver or changing the rules is costly, time consuming, and highly uncertain. Even if access competition were not an issue, this failure of the current framework would justify the development of a new approach to support the Commission's objective of promoting new services.

Any new plan should minimize regulatory impediments and should seek to replicate, as closely as possible, market incentives to develop new offerings. The Commission's policies should encourage all access providers, including local exchange carriers, to:

- Introduce new services to satisfy customers' needs.
- Adjust service features, terms, and prices in response to customers' needs.
- Tailor solutions to the needs of individual customers.
- Make efficient use of the most advanced technology.

III. Support Balanced Competition in Access Markets

The Commission's current policies support the growth of competitors within the access market. It should, however, focus on supporting balanced competition. The benefits of a competitive policy can only be realized if all market participants, including the incumbent firm, are allowed to compete effectively. In the interexchange market, it was argued that a certain degree of "handicapping" was necessary to ensure that new interexchange carriers could grow to the critical size necessary to successfully contest the national long distance market with AT&T. Access markets, however, are much more localized, and handicapping the incumbent provider is simply not necessary to ensure that new entrants can operate on an efficient scale. This perception that alternate competitive suppliers are fledgling entities is erroneous. These "new entrants" include well-established interexchange carriers (e.g., AT&T, MCI, Sprint, etc.), as well as subsidiaries of independent corporations of substantial means (e.g., Teleport, Metropolitan Fiber Systems, etc.).

IV. Promote Efficient Use of the Network

Efficient use of the network is one of the original access charge goals, and it remains a valid objective for the future. Over time, some aspects of the Commission's access charge plan, such as the introduction of End User Common Line Charges, have reduced price distortions and contributed to network efficiency. However, the current access framework still maintains incorrect price signals and does not fully support the network efficiency goal.

Network efficiency as a policy goal should be measured in economic terms. When regulation leads to prices which are different from those a competitive market would produce, decisions are distorted, and resources are used inefficiently.

Network and economic efficiency can be achieved by reducing the effect of past cost misallocations on rates, providing a framework which permits more timely market responses, and funding any necessary support flows through contributions by all providers. USTA agrees with the authors of a 1986 article in the Federal Communications Law Journal entitled "Back to the Future: A Model for Telecommunications," who noted the following:

> Perhaps the key objective for public interest regulation in the transitional marketplace should be to stimulate use of the public switched network to the efficient levels that would be obtained in a competitive marketplace.[1]

V. Encourage Development of a National Telecommunications Infrastructure

The development of new technologies, products, and services in a competitive market serves to satisfy the needs of customers in that market more effectively. In the case of an industry like telecommunications, which provides a vital infrastructure base for other industries, there may be additional public policy goals to be served, such as supporting productivity gains in other sectors of the economy and improving the competitiveness of the United States in world markets.[2]

A new framework which encourages the adoption of new technology would support this goal more effectively than the current access structure, which inhibits the introduction of new services. A plan which reduces relative rate distortions would also help to direct resources into the most productive investments in telecommunications infrastructure.

VI. Prevent Unreasonable Discrimination

Consistent with its statutory obligation contained in Section 202(a) of the Communications Act of 1934, the Commission must find charges, which result in unjust or unreasonable discrimination, unlawful.[3] However, the Act implicitly recognizes that discrimination may exist, as long as it is not unjust or unreasonable.

There are many examples of lawful price discrimination in today's access charge plan. Currently, customers in different states can pay different rates for "like" services. In

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[1] "Back to the Future: A Model for Telecommunications," by Mark S. Fowler, Albert Halprin, and James Schlichting, p. 167.

[2] USTA encourages LECs to function as full service providers, fully utilizing the best available technologies and working together to provide an advanced, operationally compatible core network infrastructure.

[3] 47 U.S.C. § 202(a)

a single state, customers pay the same rates for "like" services even though the services may have different underlying costs. The linchpin is that these examples of price discrimination, which resulted from Commission rules, have not been found to be unreasonable and therefore, are not unlawful.

VII. Minimize Regulatory Burdens

An access plan should not burden customers, suppliers or regulators of access services with undue or inequitable administrative requirements. The rules and requirements should be easily understandable by customers, suppliers and regulators. The cost of administering any regulatory scheme should be kept to a minimum.

The current access framework, because of its rigidity, requires an unreasonably large effort by the Commission itself, the carriers, and other interested parties, to deal with changes which are occurring more rapidly every day. A more adaptable framework, which does not require rule changes or waivers to accommodate every new development in access services or pricing, would reduce the cost of regulation for carriers and customers, and the administrative burden now borne by the Commission.

Appendix D: TMA and CMA Demand and Price Initialization

I. TMA INITIALIZATION

Initially, the creation of TMA categories will involve a two step process for price cap companies. The first step will be to recast existing base period demand into the proposed structure consisting of Transport, Switching, Public Policy and Other baskets. This restructure would be accomplished on a revenue neutral basis. The restructure from the existing price cap structure into the proposed structure will necessitate that price cap indices be reset to 100. In the second step, demand will be distributed into the appropriate IMA and TMA categories. Although additional wire centers may be assigned to TMAs after initialization, base period demand is not re-established until the next annual filing. Services within these wire centers will assume the applicable TMA prices.

Non-price cap companies will recast existing demand into the proposed structure of access categories. This restructure would be accomplished on a revenue neutral basis. Demand would then be allocated to the appropriate IMA and TMA categories. As additional wire centers are assigned to the TMA, demand from those wire centers will be moved to the appropriate TMA category.

Prices for services within the TMA will be initialized at existing IMA levels. New revenue weights and indices will be calculated for the affected price cap categories. The values of the existing actual price index (API) and service band indices (SBIs) will be calculated for the IMA and TMA categories contained in the Transport basket. For non-price cap companies, prices for the TMA will also be initialized at the existing IMA levels. However, consistent with existing rules, no indices will be applicable.

II. CMA INITIALIZATION

As wire centers are classified as CMA, the qualifying services will be removed from price cap regulation. However, the creation of a CMA does not immediately alter current price cap base period demand and indices. When the base period demand is re-established in the next annual filing, CMA demand will be excluded.

Appendix E: Summary of the USTA Proposal for Streamlined Review of New Services

The USTA New Services proposal is designed to streamline the regulatory process for the introduction of new interstate services. Under the proposal, local exchange carriers would be permitted to file tariffs which introduce new rate subelements or reference technical publications without first obtaining waivers of the Commission's Part 61 or Part 69 rules. The proposal would also permit the filing of new services tariffs with a 21 day notice period, if the revenues for the new service are considered to be de minimus. The proposal is limited to services that satisfy the Commission's criteria for new services. As a result, tariffs filed pursuant to the streamlined regulations of this proposal cannot affect the price, terms, conditions or availability of existing services.

The following is a summary of the three elements of the USTA New Services Proposal:

1) Elimination of Part 69 Waivers for Introduction of New Rate Subelements for New Services

The New Services Proposal would permit local exchange carriers to introduce new rate subelements -- including new switched access rate subelements -- without waiver of the Part 69 Rules for new services, as defined by the Commission's rules.

2) Elimination of Part 61.74 Waivers to Reference Technical Publications for New Services

The New Services Proposal would permit local exchange carriers to submit new services tariffs that reference new or revised technical publications without first obtaining a waiver of Section 61.74 of the Commission's rules.

3) Expedited Review of Tariffs for New Services

The New Services Proposal would permit local exchange carriers to file tariffs for new services under a "presumption of lawfulness" if the anticipated revenues for the service are "de minimus." Tariffs for such new services may be filed with effective dates 21 days or more from the tariff filing. New services revenues would be considered de minimus for a local exchange carrier if anticipated first year revenues do not exceed 2% of the local exchange carrier's annual interstate access revenues, or $5 million, whichever is less. For local exchange carriers for whom 2% of their annual interstate revenues are less than $200,000, new services with projected first year revenues less than $200,000 shall be considered de minimus.

Appendix F: Unity 1 Memorandum Agreement

UNITY 1 MEMORANDUM AGREEMENT

October 9, 1984

This memorandum reflects the essence of an agreement among the exchange carriers as to the appropriate resolution of the major pending national issues. These proposed resolutions represent an achievable balance of the issues which will protect the customers and investors of the exchange carriers.

1. The current practice of the FCC is to price all interstate access services on the basis of an industry-authorized rate of return on total capital. The FCC has proposed revising this practice to reflect divestiture and cost of capital differences among carriers. While it may be appropriate for the FCC to review the relevant business and financial risks and to determine individual, authorized rates of return for the Bell regional holding companies, GTE telephone operating companies and possibly other large telephone operating companies, this would not be practical for the large number of smaller exchange carriers. We strongly believe that an overall industry rate of return continues to be the most appropriate method to properly protect the rural, high cost, highly leveraged, RA companies and all other small telephone companies. These exchange carriers should continue to be authorized an average industry return on capital for rate development, High Cost Formula calculations and, to the extent earned, for pool settlements.

2. Universal telephone service must be protected by a mechanism which provides a contribution designed to mitigate significant disparity in basic rates for companies serving areas where costs are substantially above the national average. The mechanism developed should require that long distance carriers pay an appropriate amount for their use of the local exchange network non-traffic sensitive costs not recovered through flat rate end user costs including adequate funding of a universal service fund that is designed and targeted to truly maintain reasonably priced service in rural areas and uses an acceptable cost formula that does not penalize high cost-highly leveraged companies but uses a nationwide uniform cost of capital in formula calculation.

3. Because of the ever increasing threat of bypass of the public switched network, exchange carriers realize the need to promptly reduce the amount of non-traffic sensitive costs recovered through usage sensitive, switched access rate elements. The public interest requires that this network continue to grow and remain financially viable. To that end, large users must be encouraged to remain on the network through appropriate pricing of access service. The exchange carriers agree that the recovery of subscriber loop- costs from residential and single line business customers should begin at $2 per month in 1985 with appropriate increases as outlined in the FCC's plan to $4 through the transition period. Subsequent recovery levels will be determined as per #5, below.

4. Lifeline service should be established, where necessary, and administered on a state-by-state basis, and qualifications should be determined by appropriate state organizations. The funding for lifeline service should be from sources other than telephone service subscribers.

5. As major milestones are achieved in the implementation of the FCC Access Charge Plan, re-evaluation of the key issues in the access charge plan should be undertaken by all parties, and the FCC should adjust the plan if and as necessary. Issues to be reviewed include status of universal service, bypass, and the extent to which non-traffic-sensitive subscriber loop costs should be recovered through usage sensitive access rate elements.

6. The industry should employ unity in seeking acceptable conclusions to these resolutions and rely on federal legislation only as required.

Appendix G: Unity 1-A Agreement

UNITY 1-A AGREEMENT
June 12, 1986

This Unity 1-A Agreement is intended to preserve, update and supplement the Unity Agreement. It reflects agreement among the exchange carriers and the undersigned local exchange carrier associations concerning the appropriate resolution of the major pending issues. These agreements represent an achievable balance of the interrelated sets of issues. The local exchange carriers and associations believe that, implemented as a comprehensive plan for a coordinated industry structure, these resolutions will protect the customers and investors of the exchange carriers, respond to the public interest concerns of regulators, and serve the legitimate interests of interexchange carriers.

For this purpose, the exchange carriers and the associations agree to support the following basic goals before the Federal Communications Commission and, where appropriate, before state regulatory agencies:

<u>BROADEST CONNECTIVITY REASONABLY ATTAINABLE</u> - Exchange carriers have a common objective of offering exchange network connections to both end user and interexchange carrier customers at a quality level and at reasonable charges so as to promote the broadest connectivity reasonably attainable.

<u>USAGE CHARGES WHICH ENCOURAGE EFFICIENT USE OF THE NETWORK</u> - Exchange carriers have a common objective of setting reasonably priced usage charges which encourage efficient use of the exchange carrier network by both end users and interexchange carriers.

<u>REDUCE SCOPE AND COMPLEXITY OF REGULATION</u> - Exchange carriers have a common objective of reducing the scope and complexity of governmental regulation of exchange carrier businesses to achieve a reduction in the cost of regulation and in recognition of an increasingly competitive market environment.

Underlying these defined goals, the exchange carrier industry has constructed a common set of principles to be applied to specific issue areas. These principles can be characterized as common understandings of acceptable means at this point in time of moving toward fulfillment of these goals. Assuming that the spirit of these principles is incorporated as a part of national telecommunications policy, there is no need for any further consideration of possible federal legislation on the issues addressed in this Agreement.

I. BROADEST CONNECTIVITY REASONABLY ATTAINABLE

A. Long Term Support and USF Funding (SUF)

Exchange carriers recognize the need for a SUF permanently supported by a mandatory nationwide industry-based funding mechanism. This fund would support high costs allocated to access services by the Universal Service Fund (USF) expense adjustment as well as the other FCC (Part 67 and 69) rules. The fund would be sized and targeted to:

1. Set SLC charges in high cost areas at reasonable levels, as defined in 1(B), below.

2. Set carrier charges in high cost areas at reasonable levels, as defined in II(B), below..

3. In order accomplish 1. and 2. above, long-term support funds are to be available to all areas that remain in the voluntary common line pool.

4. Continue funding of the USF portion through charges to IXCs.

5. Refocus the USF expense adjustment to high cost areas among the smaller exchange carriers. To accomplish this objective, the revised USF Expense Adjustment Formula shown in Table 1 should be adopted. USF should be available to all exchange carriers that qualify.

6. If, in the future, it appears that other factors such as Cat. 6 COE and separations changes would create unreasonably high prices to End User and IXC customers, the USF cost methodology could be reviewed.

B. Subscriber Line Charges

Because of the ever-increasing threat of bypass of the public switched network, the exchange carriers realize the need to reduce promptly the amount of non-traffic-sensitive costs recovered through usage sensitive, switched access rate elements. The public interest requires that this network continue to grow, improve its efficiency and remain financially viable. To that end, large users must be encouraged to remain on the network through appropriate pricing of access service. At this time, exchange carriers agree that the recovery of subscriber loop costs from all exchange carriers' residential and single line business customers should increase to either cover their full costs, or $3.00 per month effective 6/1/87, and $4.00 per month effective 1/1/88, whichever is less. Subject to consideration of Universal Service and market conditions, exchange carriers may voluntarily increase their SLCs above the charges set out herein. However, the exchange carriers also agree that the subscriber line charge should be set at a level which recognizes that market conditions allow interexchange carriers to continue paying an appropriate portion of common line costs.

C. Lifeline

1. Lifeline service should be established, where necessary, and administered on a state-by-state basis, and qualifications should be determined by appropriate state organizations.

2. The funding for lifeline services should be from sources other than telephone service subscribers.

D. Local Franchise

Federal and state laws and regulations must continue to balance the reciprocal concepts of a local exchange carrier's obligation to serve and that carrier's right to maintain economic viability in the provision of that service.

II. USAGE CHARGES WHICH ENCOURAGE EFFICIENT USE OF THE NETWORK

A. Nationwide Uniform Toll Rates

Continue support for nationwide uniform toll rates through a long-term Support structure which limits geographically based deaveraging and by appropriate regulatory oversight.

B. Carrier Charges and Common Line Pooling

Exchange carriers recognize the need for a system of long-term Support and USF funding mechanisms, and voluntary NTS pooling which permits area by area pricing flexibility in the method of recovery of NTS costs, while insuring that carrier or subscriber line charges in no areas need to become unreasonably high:

1. Exchange carriers should be permitted the pricing flexibility of area specific rates and rate structures tied to area specific costs, plus their share of the industry-wide long-term Support.

2. Settlements flows among ECs in excess of long-term Support should be reduced and eliminated over a transition period of three(3) to five(5) years. A NECA administered Transitional Support funding mechanism should be provided during this period to facilitate the phase-out of support from low cost ECs to the other EC areas which do not remain in the voluntary pool and are currently receiving net revenues flows from the common line pool.

3. The NECA administered mandatory NTS pool should be replaced by a voluntary NECA pooling arrangement similar to the existing TS pool. This NECA pooling arrangement would provide for voluntary price averaging, cost, risk and resource sharing among its members.

4. NECA administered mandatory nationwide industry-based long-term Support and USF funding mechanisms would provide additional long-term sources of revenues to high cost areas. Support revenues would be sized, in combination with reasonable levels of carrier and subscriber line charges, to cover the appropriate total revenue requirements, including

USF expense adjustments, of the voluntary pool members. Additional long-term support flows should be billed by all non-pooling ECs and distributed through NECA.

5. In order to limit the disparity in the carrier common line charge, the carrier charge for those remaining in the voluntary pool shall not exceed the approximate charge that would be in effect if a mandatory pool were still in existence.

III. REDUCE SCOPE AND COMPLEXITY OF REGULATION

A. Simplification of Regulatory and Administrative Burdens

1. Support continued use of average schedules as a compensation mechanism.

2. Support the reduction and/or elimination of unnecessary and burdensome FCC filing requirements on all LECs, but especially for small LECs, e.g., periodic reports, tariff cost/demand support, etc.

B. Separations Reform

Separations procedures should be simplified so that they are easier to understand and less costly to implement than current procedures. The new procedures should achieve a rational allocation of regulated costs while assuring a sufficient Universal Service Fund. Separations principles and procedures should balance the interests of small and large exchange carriers.

C. Rate of Return

While it may be appropriate for state and federal regulators to review individually the relevant business and financial risks in order to determine specific authorized rates of return for Bell regional holding companies, GTE telephone operating companies and possibly other large telephone operating companies, this is not practical for the large number of small exchange carriers. We strongly believe that an overall, industry rate of return in each jurisdiction is the most appropriate method to properly protect the rural, high cost, highly-leveraged, REA companies and all other small telephone companies. These exchange carriers should continue to be authorized an average industry return on capital for rate development, high cost formula calculations and, to the extent earned, for pool settlements.

D. Industry Cooperation at Interstate and State Levels

Issues addressed in Unity Agreements at the national level that are applicable at the state level, must be addressed with the same spirit of cooperation and compromise to achieve the same goals in both jurisdictions.

CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing Comments Of Southwestern Bell Telephone Company In Docket No. 93-179 has been filed this 2nd day of August 1993.

Katie M. Turner

Katie M. Turner

August 2, 1993

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